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IN THE

Supreme Court of the United States

October Term 1965
No. 1145

MATTEL, INC.,

Petitioner,

vs.

THEODORE R. DUNCAN, and TED DUNCAN, INC.,

Respondent.

Respondent's Brief Opposing Petition for Writ of Certiorari.

Preliminary Statement.

This case is before the court on the petition of defendant and appellant below Mattel, Inc. for a writ of certiorari to review the ruling of the Supreme Court of the State of California.

On August 29, 1960, respondent Duncan initiated an arbitration proceeding with Mattel before the American Arbitration Association seeking to have his patented device of a voice box unit returned to him under the provisions of an exclusive license agreement between the parties dated December 1, 1958. By the unanimous award of the Arbitrators dated March 18, 1964 (Pet. App. "D") the Board held that Duncan was entitled to

the return of the voice box under the provisions of paragraph 6 of said agreement.[1]

On June 4, 1964, the Superior Court of Los Angeles County, California confirmed the arbitration award and entered judgment thereon in the face of the petition brought by Mattel to vacate said award on the alleged ground of illegality of paragraph 6.

On October 28, 1965, in a unanimous opinion, the District Court of Appeal affirmed the judgment below. (Pet. App. "F".) The Opinion was certified for nonpublication in the Official Reports under Rule 976. (Erroneously cited by petitioner as Rule 975.)[2] Rehearing was denied.

The petition for hearing in the Supreme Court of California was denied on December 22, 1965. The peti-

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[1]Paragraph 6 of said Agreement of December 1, 1958 provides in part as follows:

"In the event Mattel shall manufacture or sell a different * * * voice box developed by someone other than * * * Duncan, and for which royalties are not payable to * * * Duncan hereunder, the patent rights * * * assigned by Duncan to Mattel on the voice box * * * shall at the option of * * * Duncan revert to * * * Duncan."

[2]Rule 976 reads in part as follows:

(a) [Supreme Court] All opinions of the Supreme Court shall be published in the official reports.

(b) [Standard for opinions of other courts] An opinion of a District Court of Appeal or of an appellate department of the superior court shall be published in the Official Records if it involves a new and important issue of law, a change in an established principle of law, or a matter of general public interest.

(c) [District Court of Appeal] Every opinion of a District Court of Appeal shall be deemed to meet the standard for publication specified in subdivision (b) and shall be published in the Official Records unless (1) a majority of the court rendering the opinion certifies that it does not meet the standard for publication and specifies it for nonpublication and (2) either no petition for hearing in the Supreme Court is filed in the cause or the petition is denied by the Supreme Court without ordering publication of the District Court of Appeal opinion.

tion for writ of certiorari was filed by petitioner on March 22, 1966.

Respondent respectfully submits that the petition completely distorts the record below in petitioner's presentation of the alleged questions and issues presented for review, and that the petition does not present any reason or ground for the grant of certiorari.

Statement of the Case.

The sketchy and misleading statement of the case set forth in the petition for certiorari does not begin to give an adequate factual background of the controversy. A more complete and correct statement of the facts is set forth in Respondent's Reply Brief filed before the District Court of Appeal (Section II thereof) and filed as part of the record before this Court. The correct statement of facts is also set forth in the Opinion of the District Court of Appeal. (Pet. App. "F".) Nowhere in its petition, does petitioner take issue with or deny any of the facts presented in the opinion of the California District Court of Appeal.

As that opinion reflected, for approximately a five-year period prior to the entering into of the December 1, 1958 Agreement, respondents Duncan had a successful active business manufacturing and selling the "voice box" of the licensed patents.[3]

By the agreement, petitioner Mattel acquired not only all of the patents and inventions relating to the voice box, but also all of the manufacturing facilities of

[3]In said five year period, Duncan had manufactured and sold in excess of six million voice box units to various toy manufacturers, competitors of Mattel, which manufacturers had incorporated the units into various lines of toys sold by the manufacturers.

the business, including tools, machinery, inventory, know-how, and all of Duncan's customer lists and complete manufacturing premises. The pertinent provisions of the Agreement are set forth in the District Court of Appeal Opinion. (App. "F", pp. 16-17.)

In its petition, Mattel states rather casually that

> "Petitioner thereafter acquired rights to another voice reproducing device and marketed it in toys which were not economically competitive with any toys employing the licensed 'voice box.'" (Pet. pp. 6-7.)

What Mattel carefully omits from its statement of the case is that this other voice reproducing device of which it speaks (the Ryan patents) were those developed by Mattel itself. Nor does Mattel mention in its petition that when the agreement was executed on December 1, 1958, Mattel did not reveal to Duncan that Mattel had been developing its own Ryan voice box.

Nor does Mattel mention in its presentation of the facts that almost immediately after the Agreement was entered into Mattel commenced on an extensive scale, the marketing of the Ryan voice box in its toys to the exclusion of the Duncan voice box.[4]

It was in this context of the shelving of Duncan's voice box that the arbitration proceeding was commenced. Duncan has never claimed that he is entitled

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[4]The sales figures of the Duncan voice box by Mattel graphically illustrates the result of what Mattel has contended was "diligence" on its part.

1959	205,625 units
1960	48,958 units
1961	44,349 units
1962	7,840 units
1963	7,614 units

to any royalties on the Ryan unit. Duncan has never claimed that he is entitled to royalties on any non-patented article used by Mattel. There is nothing in the contract dealing with prices that Mattel may charge, there has never been any suggestion that Duncan has anything to say about the prices that Mattel charges and it is grossly misleading to imply or to suggest to this Court as petitioner has done that there is any price-fixing Agreement involved in the December 1, 1958 agreement. (See reason 4 of Reasons Relied Upon for Review on Writ of Certiorari, p. 5.)

Duncan has never suggested or contended that Mattel is precluded from using any voice box unit it pleases. What Duncan has contended and does now contend is that he is entitled to the return of his unit so that the public may have a competitive choice between petitioner's and respondents' talking toys, and so that he may finally realize a reasonable return on his patents.

Under the contract, Duncan's sole remedy is the return of his device. Since the beginning of the arbitration proceedings, almost six years have already been consumed from the few remaining valuable years of Duncan's patents.[5]

The Questions Presented for Review.

The "Question Presented for Review" as posed in the petition, is grossly inaccurate, incomplete and misleading as it is based upon a premise which is non-existent, namely that there is a provision in the December 1, 1958 agreement which prohibits Mattel from dealing in

[5]It is significant that Mattel did not even file its petition for certiorari to this court until the 90th day following the California Supreme Court ruling.

unpatented competitive goods, or that Duncan has ever claimed that he is entitled to receive royalties or anything from Mattel other than on his own patents. It is shocking to say the least for Mattel to pose the question in this way, completely distorting the facts and the terms of the contract.

Mattel conveniently fails to pose the question in the light of the facts found in the opinion of the District Court of Appeal that Mattel was and is using the patent license grant as a means of maintaining control of the licensed patents while it "shelves" them and withdraws their products from the competitive market, enabling Mattel to monopolize the market with its own more expensive device.

To present the proper question to this Court, it is necessary to clear the distorted questions and reasons stated by Mattel by indicating first what questions are not involved in this case. This is not a case where a licensor has precluded its licensee from dealing in any competitive goods, patented or unpatented. As previously noted, almost from the very inception of the contract, Mattel has been using and continues to use its own Ryan device exclusively in its toys to the complete exclusion of the Duncan device. This is not a case involving any price-fixing agreement. This is not a patent-infringement case involving any patent misuse doctrine. This is not a case where an agreement requires payment of royalties on unpatented goods. This is not a tie-in case where an agreement requires the licensee to purchase certain unpatented articles along with the unpatented articles. Finally, this is not a case where the licensor is attempting to obtain royalties after his patents have expired.

Purely and simply the only question before this court is whether paragraph 6 of the 1958 contract which requires Mattel to return the patented device to Duncan where Mattel decides to use and does use its own device to the exclusion of the Duncan patent, violates any of the anti-trust laws of the United States or of the State of California.[6]

It is the position and contention of respondent and has thus far been held by every tribunal and court before which this question has been previously presented that said paragraph is not only not invalid, but that it is a completely reasonable restriction which will and does encourage proper and free competition within the "rule of reason" first enunciated by this Court in *Standard Oil v. United States* (1911), 221 U.S. 1, 60, and *Chicago Board of Trade v. United States* (1918), 246 U.S. 231, 238 and followed by the California courts in such cases as *Great Western D Products v. Wathen* (1937), 10 Cal. 2d 442, 74 P. 2d 745 and *King v. Gerold* (1952), 109 Cal. App. 2d 316, 240 P. 2d 710.

There is no divergence between the Federal and California Courts in relation to determining whether specific contracts are or are not in restraint of trade. Both apply the "rule of reason" which takes into consideration the over-all effect of the contract upon competi-

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[6]Originally, Mattel also contended that paragraph 6 and the Agreement violated the provisions of Section 16600 of the Business and Professions Code of the State of California which reads as follows:

"Except as provided in this chapter, every contract by which anyone is restricted from engaging in a lawful profession, trade or business of any kind is to that extent void."

Mattel appears to have abandoned that contention in its present petition.

tion. The California Court properly construed the contract and held it to be free of any restraint of trade. Indeed, Justice Wood observed that the contract promoted rather than restricted competition.[7] The very elements upon which the California Courts relied upon in affirming the arbitration award are the very facts which are omitted or misstated in the Mattel petition.

Typical of such misstatements of fact are the shocking, and misleading statements made by Mattel that there was a "finding of diligence by licensee". (Pet. p. 5, para. 5; p. 9.) This statement is simply untrue. There is no question but that Duncan had raised the question of "lack of diligence" before the Arbitration Board and there is also no question but that the award simply omitted any reference either way to the question of Mattel's diligence.[8]

It is respondent's contention that since the Arbitration Board Award already ordered the return of the voice box unit to Duncan under paragraph 6, the question of diligence was moot and therefore left unanswered. It strains credulity to suggest to this Court that Mattel had been diligent in the fact of the uncontradicted record relating to the dwindling of sales of the Duncan unit to zero, and in the face of Mattel's

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[7]"Reversion of Duncan's right is the only protection given to Duncan by the terms of the Agreement, and as previously stated, such reversion would tend to encourage rather than stifle competition." (D.C.A. Opinion, Petitioner's Appendix F, p. 22)

[8]As stated in a footnote in the District Court of Appeal Opinion, "the award does not specify any deficiency as to Mattel's diligence or refer to Mattel's diligence". (App. F, p. 20)

own testimony at the arbitration hearing that the Duncan unit had not been incorporated in a single Mattel toy, that Mattel with a multi-million dollar annual advertising budget had never advertised the Duncan unit and that the procedure followed by Mattel in the sale of the Duncan unit was merely to follow up all inquiries made to its office. [Arbitration Hear. Tr. p. 120, lines 10-18.]

The reasonableness and necessity for the reversion clause of paragraph 6 is all the more evident in the face of such a record.

Comment on Cases Cited by Mattel.

Not a single case cited by Mattel is even remotely in point. Even a casual reading of these cases quickly reveals their inapplicability.

Mattel makes the bald, misleading and inaccurate statement that "paragraph 6 of the Patent License Agreement and Patent Assignment Agreement in question is of the type condemned by a well-established line of cases including

> *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488 (1942).

The *Morton Salt* case, referred to a situation where the Morton Salt Co. required its licensees to use its unpatented salt tablets in using its patented machinery. This Court struck down this tie-in arrangement, holding that such arrangements would be aiding in the creation of a limited monopoly in the salt tablets not with-

in that granted by the patent. Merely stating the facts of that case and the holding of the court reveals its inapplicability. Nowhere in the instant case is there any requirement that Mattel is required to use any unpatented articles of Duncan.

Petitioner also cites the case of *Sola Electric Co. v. Jefferson Electric Co.*, 317 U.S. 173 (1942). The *Sola* case involved a non-exclusive license agreement wherein it was held that a licensee is not estopped from setting up as a defense the alleged illegality of the contract because of certain price-fixing clauses in the contract. The Duncan-Mattel agreement contains no price-fixing clause.

Typical of the presentation of the factual and legal issues in the petition for certiorari, petitioner makes this startling and misleading statement:

> "The challenged contractual provision prevents the petitioner from engaging freely in the manufacture and sale of competitive goods on pain of reversion unless its licensor is paid royalty on such competitive goods whether they are patented or not." (Pet. p. 6.)

Again, respondent reiterates that there is nothing in paragraph 6 or the other provisions of the December 1, 1958 Agreement requiring Mattel to pay royalties to Duncan for anything other than use of the Duncan patents. Mattel has been and is free to use any other articles it likes, patented or non-patented and is under no obligation whatever to pay Duncan any royalties

thereon.[9] No suggestion has ever been made by Duncan that Mattel is required to pay him any royalties for Mattel's use of the Ryan patents.

Similarly, *McGregor v. Westinghouse* (1947), 329 U.S. 402, cited by Mattel involved a patent license agreement which contained price-fixing clauses in it.

The case of *Brulotte v. Thys Co.* (1965), 379 U.S. 29 involved a patent license agreement which was condemned by this Court and held to be illegal because the agreement permitted the licensor to obtain royalties beyond the expiration date of the patents involved. No such contention has been nor can be made in this case.

Finally, petitioner cites the completely inapplicable case of *Sears Roebuck v. Stiffel* (1964), 376 U.S. 225. In that case, this Court held that when an article is unprotected by a patent or copyright that state law may not forbid others to copy that article. No such factual problem exists in the instant case.

Conclusion.

The petition for certiorari is presented from misleading and erroneous factual and legal issues. When the true facts and issues of this case are held up to be examined before the light of reason and justice, it is clear that it is Duncan who needs the assistance of this

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[9]Paragraph 6 permits the reversion option to be exercised whenever Mattel uses another voice-box "for which royalties are not *payable* to Duncan". It is significant that Mattel attempts to distort this clear meaning and to make this language synonymous with "for which royalties are not *paid* to Duncan."

Court, not Mattel. It is Mattel which is attempting to establish an illegal monopoly and to restrain trade, not Duncan. An affirmance by this Court of the judgment below will encourage competition and remove the Duncan voice box from the "moth balls" in which Mattel has had it encased for these many years. By such an affirmance the public will once again be afforded the opportunity of a competitive choice between Mattel's and Duncan's talking toys. Duncan has been attempting to regain his voice box unit now for almost six years while the limited patent life of his invention goes slipping by. The decision of this Court can now finally end this frustrating chase. There is no merit, factually or legally in the petition of Mattel for certiorari.

Respondents respectfully submit that the petition should promptly be denied.

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